

The FA Mutual Fund Madness Tournament Updates and Highlights

The Tape to the Final Funds

The Championship Has Been Decided – PIMCO for Equities and Delaware for Fixed Income

Round 6: 4/1/2013 – 4/5/2013

The championships have been decided for the first annual Mutual Fund Madness Tournament! Congratulations to all tournament participants. Winners in each bracket will be notified after the NCAA Men's Division I National Basketball Tournament Championship game tonight so tie breakers can be determined.

The S&P 500 beat one of the two finalists this week, but PIMCO's Stock Plus fund was the winner of the equity bracket. For the fourth week in a row (a tournament record), the top performer and winner of the fixed-income bracket was the Delaware Extended Duration Bond Fund, which has been a powerhouse performer for the past five years.

Weekly Top Fund Performer

Delaware Extended Duration Fund (DEEIX) earned top performance honors with a return of 2.32%, which was three times the Barclay's Aggregate Bond Index and five times the S&P 500 Index for the week.

Fixed Income Bracket Championship Highlights

Delaware's powerhouse- five-star-rated Extended Duration fund (DEEIX), picked the perfect week to compete against a top high-yield bond manager like Waddell and Reed. With a volatile market environment and a really disappointing jobs report, investors poured back into defensive fixed income catapulting the Delaware Fund to victory. The weekly return was 2.32%. Maybe there is something to picking five-star funds.

Equity Bracket Championship Highlights

Ironically, PIMCO PXTIX has won the championship in the Equity Bracket. PIMCO started the tournament tied with the most funds qualifying on the basis of its 2012 performance. Congratulations to PIMCO for an outstanding tournament. The fund is currently in the second percentile, year to date.

Tournament Comments and Highlights First, my prediction for the equity bracket was way off the market as PIMCO trounced Fidelity in the championship round. Congratulations to PIMCO for an outstanding first quarter of consistent performance. The PIMCO fund is highly rated (it's a 5-Star Silver Award fund) and the tournament proved the best funds can stand up against a field of top performing funds selected for 16 categories on the basis of one-year performance.

My batting average for both brackets was .500, as I correctly picked the Delaware Extended Duration fund which powered past the remaining final competitor fund for the fourth straight week. My predictions on a flight to quality proved correct and the Delaware Extended Duration Fund emerged as the champion of the Fixed Income Bracket. Like PIMCO, this fund was a highly rated five-star fund. Maybe there is something to those Morningstar ratings and analyst recommendations as the final funds were comprised of three – five-star funds and one four-star fund.

Concluding Thoughts

The Wall Street Journal wrote an article on the eve of the FA Mutual Fund Madness tournament with the headline “Take Funds. Add March Madness. Do You Get Fun or Foolishness?”

Well, I think the article and the detractors missed the point. Over the past six weeks, winning funds were directly affected by global market events. The brackets were made up of a wide variety of investment managers, investment styles, and investment categories. Each week, the underlying performance of the market was evident in all fund match-up. “Risk on” and “risk off” trades could be seen in the weekly results as high-quality, large-cap domestic managers competed against international small-cap growth managers. This tournament provided a great educational tool about the investment management industry and the impact of the market forces on a wide variety of equity investment styles and fixed-income portfolio strategies. The brackets were a mosaic of the global investable markets and the weekly results were a great summary on the impact to investors.

Foolishness? Far from it. This tournament should be viewed as a new fun way to teach investors about the complexities of a global market and their impact on portfolios. The criticism that short-term weekly results were the measurement of winners and losers was lost in the educational concept of learning how global market forces impact the multiple approaches to managing mutual funds. The wide breadth of mutual funds in this tournament served as an innovative way to view the global markets on a weekly basis.

Maybe the right target audience is not financial advisors and maybe instead it is college students or individual investors interested in understanding the inner workings of a global marketplace. How did the finalists, which represented four distinct investment approaches, survive six exciting weeks of constant global economic and political news? The championship finalists represented everything from pure bottom-up stock picking to structured equity index strategies with swaps and fixed income portfolio overlays to high-yielding, fixed-income securities and long-duration, fixed-income portfolios. How did three five-star funds and one four-star fund outlast the other 124 funds, which were selected based on top-category performance? Do Morningstar ratings matter, and over what time period?

One final thought: In order to have won this tournament, a financial advisor would have needed to be very lucky or be a good forecaster with a solid investment thesis. There was clearly a bit of luck to winning the tournament, but if you look at the tournament brackets, it required some forecasting skill and a clear understanding of the different investment approaches of the various funds. After 2012, emerging market equities cooled off. Advisors who recognized this trend alone could have increased

their odds of winning the tournament. Additionally, it would have improved your clients' investment returns.

Congratulations to the winners and we look forward to the second *FA Mutual Fund Madness* Tournament – The Tape to the Final Funds in 2014.